

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, ETRD, IT, EEC

SUBJECT: EC COMMISSION AGREES IN PRINCIPLE TO EXTEND ITALIAN

PRIOR DEPOSIT SCHEME

REF: (A) ROME 11379, (B) EC BRUSSELS 6906 (NOTAL), (C) EC BRUSSELS

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1. THE EC COMMISSION ON JULY 14 AGREED IN PRINCIPLE TO AN ITALIAN REQUEST TO EXTEND ITS PRIOR DEPOSIT SCHEME FOR THREE MONTHS UNTIL NOVEMBER 6. COMMISSION OFFICIALS TELL US THAT THE COMMISSION IS NOW INFORMING MEMBER STATES OF THIS DECISION AND CONSULTING INFORMALLY WITH THE EC MONETARY COMMITTEE. MEMBER STATES SEEM PREPARED TO GO ALONG WITH THE EXTENSION. ITALIAN PRIME MINISTER MORO RAISED THIS MATTER AT THE EUROPEAN COUNCIL AT WHICH TIME THERE WAS TACIT AGREEMENT TO THE ITALIAN REQUEST. THE COMMISSION WILL ALSO DISCUSS THE EXTENSION WITH THE EC COMMITTEE OF PERMANENT REPRESENTATIVES ON JULY 17. COMMISSION OFFICIALS WERE CONFIDENT THAT THE COMMISSION WILL FORMALLY AGREE TO THE EXTENSION AT ITS MEETING ON JULY 21.

2. COMMISSION OFFICIALS SAY THREE CONDITIONS HAVE BEEN PLACED ON THE EXTENSION. FIRST, THE GOI SHOULD NOT CHANGE THE CURRENT PRIOR DEPOSIT SCHEME; NO MEASURES WILL

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BE INTRODUCED TO DISCRIMINATE AGAINST EITHER TYPES OR

SOURCES OF IMPORT. SECONDLY, THE GOI WILL CONSULT REGULARLY WITH THE COMMISSION ON ECONOMIC POLICY MEASURES; THE COMMISSION EXPECTS TO HAVE A CLOSE CONSULTATIVE ROLE IN THE PREPARATION OF AN ECONOMIC STABILIZATION PROGRAM FOR ITALY. THIRDLY, THE COMMISSION MAY SEEK TO REDUCE THE PERIOD OF THE EXTENSION, SHOULD CONDITIONS WARRANT IT.

3. TOP COMMISSION FINANCIAL OFFICIALS BELIEVE THE EXTENSION IS FULLY JUSTIFIED. THEY NOTE THAT THE NEW GOVERNMENT HAS NOT YET BEEN ORGANIZED AND CONSEQUENTLY IT WILL STILL BE SOME TIME BEFORE A STABILIZATION PROGRAM CAN BE IMPLEMENTED. WITHOUT SUCH A PROGRAM, THE EXPIRATION OF THE PRIOR DEPOSIT SCHEME WOULD CAUSE A SHARP INCREASE IN DOMESTIC LIQUIDITY AND DEMAND. THIS WOULD ACCELERATE PRICE INFLATION AND CAUSE THE LIRA TO DEPRECIATE FURTHER. THUS, THE EXTENSION IS NECESSARY TO MAINTAIN THE RETURN TO DOMESTIC ECONOMIC EQUILIBRIUM.

4. INCIDENTALLY, WE ARE RELIABLY INFORMED THAT BOTH GERMAN AND FRENCH GOVERNMENTS HAVE URGED COMMISSION TO SEEK EXCLUSION FOR BEEF, ARGUING THAT GREATLY INCREASED SLAUGHTER RATE AS RESULT OF DROUGHT REQUIRES ADDITIONAL MARKET AND THAT ADDITIONAL BEEF IMPORTS WOULD HELP ITALIAN SITUATION. COMMISSION REJECTED THIS VIEW. HINTON

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